



THE FLORES GROUP

BUSINESS & TAX ADVISORS

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Dear Clients & Friends:

The Flores Group provides international corporate and tax services to international investors and business persons. We have over 30 years of experience dealing with complex business and international structures and transactions. We have experienced bilingual Attorneys and CPA's to assist you with your legal, tax, and business projects. We are providing this Alert for your review and consideration.

Introduction

Beginning with 2017 tax returns, there are additional filing requirements in place for foreign-owned disregarded entities, or FDREs. FDREs are now required to file Form 5472, which discloses related party transactions. As part of this new requirement, FDREs are also required to file a pro forma Form 1120.

What is a Foreign-owned Disregarded Entity?

A disregarded entity is a limited liability company with one owner that has not elected to be treated as a corporation for tax purposes. A foreign-owned disregarded entity's owner is a person who is not a U.S. citizen or resident.

New Filing Requirements

Form 5472 is a form used by the IRS to collect information on related party transactions for companies with at least 25% foreign-ownership. Related parties include shareholders, companies owned by the same shareholders, and relatives of the shareholders. Transactions that are reportable include any transaction resulting in income or expenses for which cash was the sole consideration and any transaction for which cash was not the sole consideration and any transaction in which less than full consideration was paid or received. FDREs must also report any amounts received or paid in connection with the formation, dissolution, acquisition, or disposition of the entity, and contributions to and distributions from the entity.

The structure of Form 5472 is straightforward. Page 1 asks for identifying information of the FDRE and the direct and indirect owners of the entity. The FDRE uses page 2 to report in related party transactions. Additional information that may be needed to prepare Form 5472 includes the U.S. tax ID number (EIN or SSN or ITIN, as applicable) and the foreign tax ID number, abbreviated FTIN, of the owners.

Form 1120 is generally used to report the taxable income of corporations, as well as some general information about the entity. FDREs are now also required to file Form 1120; however, the information that FDREs are required to provide is minimal. An FDRE only needs to fill in certain parts of the Form 1120. These parts are the name and address boxes and items B and E on Page 1 of the 1120. The FDRE should mark the top of the Form 1120 with the phrase "Foreign-owned U.S. DE." This return cannot be electronically filed. It should either be faxed or mailed to the IRS. Please check the instructions for Form 5472 for the exact address and fax number.

Other Potential Filing Requirements

A foreign-owned disregarded entity may also have to file an FBAR if it has foreign bank accounts with a value over \$10,000 at any time during the year.

Conclusion

The Flores Group would be very pleased to help analyze your tax implications. We hope this information is helpful in analyzing your legal and tax obligations in Texas and the USA. The material is meant as a general discussion and not intended to be specific legal or tax advice. You should consult with your legal or tax advisors for your specific situation.

SOURCE: IRS

This information is a presentation of the general rules and should not be used or relied upon for any particular investment or transaction. We recommend you consult your tax attorney or advisor for your specific situation. If you would like more information on these matters we would be glad to visit with you.

As required by United States Treasury Regulations, you should be aware that this communication is not intended or written by the sender to be used, and it cannot be used, by any recipient for the purpose of avoiding penalties that may be imposed on the recipient under United States federal tax laws.

Click here to visit our website for more information: [Flores Group](#)

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SUBJECT: New Rules for Foreign-Owned Disregarded Entities and Form 5472

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